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JAPAN, AGRICULTURE AND THE MTN

Summary

Japan is the single largest buyer of U.S. agricultural exports, accounting for close to 20 percent of foreign sales in recent years. It is also the world's biggest net importer of farm commodities. But Japan's pivotal role in international agricultural trade will not exempt it from the U.S.-led drive in the Uruguay Round of multilateral trade negotiations for new rules governing world trade in agriculture. Improved market access and changes in domestic farm policies that distort trade top the agenda for the MTN agriculture talks and these are both areas where Japan has come under fire from major exporters.

Tokyo has agreed not only to put its agriculture programs on the negotiating table in Geneva but to consider reforms as well. This flexibility is one of the first signs of change in Japan's agricultural policy position. Others are certain to follow, but they might not come fast enough to avert a clash with the United States and other big farm exporters in the MTN. How Tokyo and Washington handle issues related to Japan's import quotas in the coming weeks and months could be an early indication.

Writing New Agricultural Trade Rules

The international agricultural trading system has broken down under the weight of chronic global overproduction and pervasive predatory export policies. Despite a lot of finger pointing, policymakers in both industrial and developing countries agree on this point. More important, there is universal recognition of the need for reform. But drafting new rules for agricultural

trade requires an unprecedented political commitment by governments around the world since major changes in trade policies will not resolve the crisis without parallel changes in national farm programs that directly or indirectly affect exports and imports.

Just winning international agreement to make agricultural trade policies a priority subject in the Uruguay Round of multilateral trade negotiations was an uphill battle; in fact, the difficulty of achieving a consensus on this issue was one reason the launch of the eighth series of international trade talks under the auspices of the General Agreement on Tariffs and Trade was delayed until September 1986 (see JEI Report No. 22A, June 12, 1987). Convincing some of the world's big agricultural traders, notably the European Community, that domestic agricultural support programs also had to be put on the negotiating table in Geneva was even harder. But thanks in large part to constant prodding by the United States, Canada, Australia, New Zealand and a group of developing-country exporters led by Argentina, an international commitment to linked reforms has developed over the last year and a half.

The first break came at the April 1986 ministerial meeting of the Organization for Economic Cooperation and Development when representatives of the 24 industrial nations referred explicitly to the linkages between domestic and international market developments in agreeing to pursue agricultural trade reform. A month later at the Tokyo economic summit the leaders of the United States, Japan, West Germany, France, the United Kingdom, Italy and Canada endorsed the OECD statement. By the time GATT's 93 members met in Punta del Este, Uruguay to launch the new MTN round, the major agricultural trade players had conceded that domestic farm support programs were negotiable.

This was a crucial intermediate step in gaining an international commitment to comprehensive reform, and it was reflected in the straightforward language of the agriculture section of the Uruguay Round ministerial declaration: "Negotiations shall aim to achieve greater liberalization of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more effective GATT rules and disciplines." But one stumbling block remained -- the world's key policymakers had still not acknowledged formally that national agricultural policies were responsible for the trade crisis. This obstacle was eliminated at the May 1987 OECD ministerial talks when the industrial nations agreed on the need to negotiate reductions in internal farm supports. With European leaders joining President Reagan, Canada's premier and Prime Minister Yasuhiro Nakasone in seconding this agreement at the Venice summit in June, the stage was set for the first multilateral trade negotiations on agriculture encompassing national support policies.

Anxious to keep the reform momentum going and at the same time put its stamp on the agenda of the GATT agriculture committee, the United States presented a sweeping proposal in early July -- a call for the complete phaseout of all policies that distort trade in agriculture by the year 2000. On Washington's elimination list are all export subsidies as well as any domestic program that directly or indirectly subsidizes agriculture, including price supports, income supports like deficiency payments and storage payments, and such other

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policies as subsidized crop insurance and concessional farm credit. Also targeted for phaseout over the same 10-year period are all barriers to agricultural imports, whether tariffs, quotas, variable levies or minimum import price schemes. In fact, the only policies the White House proposes to leave in place are foreign and domestic food aid programs and direct income and other payments decoupled from production and marketing -- disaster relief, for example.

The free-trade thrust of Washington's historic proposal won strong support from Australia, Canada, New Zealand and their 10 developing-country partners in the Cairns group. In a plan presented to the GATT in late October Australia's prime minister echoed the U.S. call for the removal of all market barriers and trade-distortive subsidies by the end of the century, but he also addressed a major shortcoming of the initial American position -- the lack of measures to stabilize international markets over the short run. Filling in what in fact was a deliberate omission in the U.S. proposal, the Australian leader advocated an immediate freeze on export and production subsidies, a standstill on trade barriers and a multilateral commitment to dispose of surplus stocks in a non-disruptive way.

Emergency measures to stabilize the hardest-hit markets also provided the starting point for the proposal put forward by the Community at the end of October, although with one exception -- a call for reduced government support to farm sectors with big surpluses -- the steps outlined by the Europeans deal with the symptoms, not the causes, of the problems in agricultural trade. Far more troubling to negotiators for the United States and the Cairns group, though, is the EC position on phasing out subsidies and its unwillingness to set a timetable for reform. The Community is prepared to negotiate "significant" cuts in farm subsidies, its head of agriculture told the GATT meeting, but it cannot accept their complete elimination since such a move would knock the props out from under the EC's common agricultural policy.

Framing Japan's Proposal

While the United States, the Cairns group and the European Community argue about whose initial plan represents the most practical approach to agricultural trade reform, Tokyo is working out the details of its opening position for presentation to the GATT agriculture committee in December. This proposal will endorse the reform drive. But it is likely to diverge in important respects from the plans tabled by Japan's main trading partners because Japan approaches the negotiations from an entirely different standpoint -- that of an importer, the world's biggest net buyer of agricultural commodities, with imports topping exports by $17.3 billion in 1986.

Tokyo's perspective on agricultural trade reform is also shaped by the fact that Japan, virtually alone among the major industrial nations, consumes more farm products on an aggregate basis than it produces. More important, its self-sufficiency in food and feed calculated on a supply/use basis has dropped from 90 percent 25 years ago to 71 percent (see Table 1) despite an increasing level of protection for Japanese farmers. The decline on a calorie basis is even steeper -- 53 percent now versus 79 percent at the start of the 1960s, making the contrast with the rising rates of self-sufficiency in the United States and Europe more dramatic.

Table 1: Food Self-Sufficiency Ratios in Japan, FY 1960-FY 1985

	FY 1960	FY 1965	FY 1970	FY 1975	FY 1980	FY 1985
Food and Feed Grains	82%	61%	45%	40%	33%	32%
Food Grains	89	80	74	69	69	69
Rice	102	95	106	110	87	107
Wheat	39	28	9	4	10	14
Beans and Peas	44	25	13	9	7	8
Soybeans	28	11	4	4	4	5
Other Vegetables	100	100	99	99	97	95
Fruits and Nuts	100	90	84	84	81	76
Eggs	101	100	97	97	98	98
Milk and Milk Products	89	86	89	85	86	89
Meat	91	90	89	76	81	81
Beef	96	95	90	69	72	72
Pork	96	100	98	86	87	86
Sugar	18	30	23	18	29	34
Overall Self-Sufficiency*	90	83	78	74	72	71

*Overall self-sufficiency ratio = $\frac{\text{Total value of domestic production}}{\text{Total value of domestic consumption}} \times 100$

This ratio as well as the figures for food and feed grains and food grains alone are based on the assumption that rice demand and supply are in balance. Using actual rice demand and supply numbers raises the overall ratio by two or three percentage points in years when there is excess production (FY 1985, for example) and lowers it by one to two points when there is a shortfall.

Source: Ministry of Agriculture, Forestry and Fisheries, Food Balance Sheet.

What really sets Japan's position apart, however, is the weight it assigns food security and other non-economic factors in the agricultural reform process. Insuring a stable supply of food through some minimum degree of self-sufficiency has been a fixture of Japanese farm policy for close to three decades. Neither the enormous expansion of world agricultural production and trade over this time nor the repeated arguments of exporters that Japan can and should meet its food and feed requirements through increased imports have fundamentally altered this objective. Memories of the severe food shortages during and after World War II are dimming, but they have been replaced by a series of more recent developments, including the 1972 U.S. soybean export restraints, the 1980 U.S. embargo on grain exports to the Soviet Union and this country's crop shortfalls in the early 1980s.

To achieve its goal of minimum self-sufficiency the government has maintained most domestic agricultural prices well above world levels through a combination of import restrictions and direct farm subsidy programs. The Ministry of Agriculture, Forestry and Fisheries' Food Agency controls the purchase and marketing of rice, wheat and barley, both domestically grown and imported, while the semi-governmental Livestock Industry Promotion Corp. directly handles the purchase and sale of most imported beef and a long list of dairy products; another government-affiliated corporation plays a similar role in the sugar market. Quantitative import restrictions are applied to 19 groups of farm

products (see Appendix A), in a number of cases to backstop state trading in food grains, beef, dairy products and sugar. Pork imports are subject to a variable levy, but Japan's poultry industry is protected only by relatively low tariffs. Moreover, corn, sorghum, soybeans, cotton, wool, tobacco and hides are imported with no or minimal intervention (see Table 2).

State trading of food grains is coupled with Food Agency support prices for rice, wheat and barley. Rice farmers who plant alternative crops also receive diversion payments, as do wheat and barley growers that made the switch from rice. Most direct government assistance for soybean farmers is in the form of deficiency payments. The same is true for dairy producers, although their payments come from the LIPC instead of MAFF's general account. For their part, beef and pork producers benefit from a price stabilization scheme operated by the LIPC, while growers of beet and cane sugar are guaranteed minimum prices by the same organization that stabilizes the prices of imported sugar. In addition, Japanese farmers, like their counterparts in the United States, receive indirect assistance from the government through such varied programs as insurance subsidies, land development, disaster relief, research and extension work. In fact, outlays for these programs are far greater than direct subsidy payments.

As it turns out, Tokyo's efforts to insure minimum self-sufficiency through import restrictions and budgetary support have been more of a boon for Japanese farmers than to the country's food security requirements. In studies prepared for the MTN agricultural trade talks, both the OECD and the U.S. Department of Agriculture concluded that Japanese producers are the most heavily assisted farmers in the industrialized world. The two organizations based this finding on a yardstick known as a producer subsidy equivalent (defined in broad terms as the subsidy level that would be needed to compensate producers for the elimination of government support), which, despite numerous drawbacks, is the only measure that captures the effects of import protection as well as budget outlays.

The OECD report, which covered 1979 through 1981, calculated that Tokyo's agricultural policy initiatives represented 59 percent of Japanese farm income -- almost four times the comparable number for the United States and more than a third higher than the EC level. Looking at the 1982-84 period, USDA found that government involvement in the agricultural sector had expanded in all developed countries but that Japan still headed the list with a government support-to-producer income ratio of 70, compared with 22 for the United States and 41 for the European Community.

At the same time the USDA study provided additional evidence that while Japanese agriculture as a sector is heavily subsidized, not all farmers need extensive government assistance to be competitive with imports. The support levels provided poultry and citrus producers, for example, were not out of line with what farmers received in other countries, in part because there are no price supports for these products. Beef, pork, soybean and sugar producers received intermediate levels of assistance. Skewing the overall Japanese figure was the high level of Tokyo's intervention in dairy products and food grains, especially rice, which accounts for 30 percent-plus of the country's agricultural output.

Table 2: Border Measures Affecting Selected Japanese Agricultural Imports

Commodity	1986 Imports*	Residual Quota**	Current Tariff	Other
Rice	$4	No	0%	All purchases handled by MAFF's Food Agency.
Wheat	895	No	0	All purchases handled by MAFF's Food Agency.
Barley	149	No	0	All purchases handled by MAFF's Food Agency.
Corn (for formula feed)	1,177	No	0	
Corn (for processing)	499	No	--	Tariff quota, which totaled 3,097,400 metric tons in FY 1986. Imports within the quota are duty-free; imports above the quota subject to duty of Y15,000 per metric ton.
Sorghum (for formula feed)	468	No	0	
Sorghum (for processing)	35	No	5	
Soybeans	1,088	No	0	
Raw Sugar	274	No	Y41,500 (per ton)	Variable levy applied when import prices are below minimum stabilization price for domestic sugar and rebates paid when import prices are above maximum stabilization price.
Cotton	811	No	0	
Wool	627	No	0	
Tobacco	397	No	0	
Cattle Hides and Skins	376	No	0	
Beef and Veal	554	Yes	25	Most imports handled by quasi-governmental Livestock Industry Promotion Corp.
Beef and Veal Tongue and Internal Organs	386	No	15	
Beef and Veal Offals	1	Yes	25	
Pork	1,037	No	0	Variable levy applied to keep import prices between floor and ceiling domestic stabilization prices.
Chicken	271	No	10 (bone-in legs) 14 (other)	
Oranges	98	Yes	20 (June-November) 40 (December-May)	
Lemons and Limes	101	No	5	
Grapefruit	128	No	12 (June-November) 25 (December-May)	

*Yen trade figures were converted into dollars using 1986's average annual exchange rate of Y168.52.
**Excludes quotas administered in conjunction with state trading operations, notably those on food grains.

Although hard numbers are not available for the years since 1984, economists estimate that Japanese agricultural subsidization levels have continued to rise because of lower world commodity prices and the steep appreciation of the yen. This relationship highlights a key difference between government aid to the farm sector in this country and Japan. In Japan, as in the European Community, most assistance -- three-fourths according to USDA's calculations -- comes from import restrictions. The Japanese government's budget exposure is relatively limited, with Japanese consumers paying the tab for the wedge trade barriers have driven between domestic and world market prices.

Given the way Japan protects its farm sector, negotiators are certain to object strongly to Washington's proposal for agricultural trade reform since that plan would force Tokyo to replace current assistance programs with direct cash payments -- a prohibitive budget expense. Those objections should not be mistaken for intransigence, though. Japan not only has joined its trading partners in agreeing on the need to reduce domestic farm supports; it has taken the politically difficult first steps down this road, cutting the purchase price for rice this past summer (see below) after lowering support prices for wheat, barley, soybeans, milk and pork in 1986 (see Table 3).

There are signs that these cuts, unprecedented in the history of Japan's farm programs, will not be the last. But setting a specific timetable for reducing domestic subsidies as the Reagan administration has proposed is no more likely to be acceptable to Tokyo than it is to the European Community. The same goes for the U.S. proposal to eliminate all trade-distorting internal subsidies, which has been blasted by the Europeans (and, for that matter, many political analysts and agricultural economists in this country) as unrealistic and impractical.

Japan's expected refusal to phase out domestic support programs goes back to its position that there must be room in the agricultural reform process for food security and other non-economic policy considerations. This argument no doubt will be used also to justify the continued existence of some import restrictions. Which ones is not clear since Japanese trade policymakers have referred only to "special circumstances" in discussing the need for protection. At the same time this terminology suggests the likelihood of further import liberalization.

Pressures for Change

While Japan's proposal for reforming world agricultural trade will fall short of the free-trade plan advanced by the United States, the fact that Tokyo is prepared to negotiate on agriculture in the GATT represents a landmark shift in position. This turnabout is perhaps the most visible sign of the changes occurring in Japanese agricultural policies -- changes triggered by a combination of domestic and external developments and facilitated by the first public debate in Japan of farm policies, particularly the rice program.

Providing the backdrop for the debate was the government's renewed 1986 effort to bring rice production in line with declining domestic demand. With two consecutive bumper harvests and a third on the way, MAFF officials worried that Japan was headed toward another big inventory buildup just two years after Tokyo had completed an enormously expensive rice disposal program. Their solution -- a cut in the government purchase price -- was a radical one for a

Table 3: Agricultural Support Prices in Japan, 1983-87

(in yen)

Commodity	Unit	1983	1984	1985	1986	1987
Rice	60 kg					
Government Purchase Price		Y18,266	Y18,668	Y18,668	Y18,668	Y17,557
Government Selling Price		17,033	17,673	18,327	18,598	18,133
Wheat	60 kg					
Government Purchase Price		11,092	11,092	11,092	10,963	10,426
Government Selling Price		4,135	4,135	4,135	3,886	3,692
Barley	50 kg					
Government Purchase Price		8,366	8,366	8,366	8,229	7,793
Government Selling Price		2,912	2,912	2,912	2,766	2,628
Soybeans (standard price)	60 kg	17,210	17,210	17,210	16,925	n.a.
Milk for Processing (guaranteed price)	1 kg	90.07	90.07	90.07	87.57	82.75
Pork	1 kg					
- Upper Stabilization Price		780	780	780	760	645
Lower Stabilization Price		600	600	600	540	455
Wagyu Beef	1 kg					
Upper Stabilization Price		1,820	1,820	1,820	1,820	1,780
Lower Stabilization Price		1,400	1,400	1,400	1,400	1,370
Dairy Beef	1 kg					
Upper Stabilization Price		1,455	1,455	1,455	1,420	1,325
Lower Stabilization Price		1,120	1,120	1,120	1,090	1,020

Note: Grain and soybean prices cover crop harvested in year indicated. Livestock and milk support prices are on a fiscal year basis. Because of changes in the grading systems for wheat and barley in 1987, year-to-year comparisons are inexact.

Source: Ministry of Agriculture, Forestry and Fisheries, Abstract of Statistics on Agriculture, Forestry and Fisheries.

ministry that had always regarded annual hikes in the support price as a producer entitlement, but it went to the heart of the problem since these increases were the primary cause of chronic overproduction.

Equally important for a government attempting a politically risky move, the cut in the producer price was not an ad hoc policy response. Instead, it was based on the production cost parity formula used to determine annual rice purchase prices. Tokyo could also justify its move by pointing to the fact that the average farmer's income was roughly 30 percent higher than that of his urban blue-collar counterpart as the result of a 25-year-old government policy to maintain farm and nonfarm incomes at comparable levels.

Once word got out that MAFF was proposing a 6.6 percent reduction in the rice support price, the political arm of Japan's agricultural cooperative movement (Nokyo) went into action, putting heavy and well-publicized pressure on the big Diet bloc of Liberal Democratic Party members representing rural constituencies. This pressure worked -- at least in the short run -- as the LDP representatives first forced the government to back off from the 6.6 percent cut, then to abandon its fallback position of a 3.8 percent reduction, and finally to settle for a freeze. But Nokyo's lobbying tactics also produced an unusual backlash in Japan. Joining the media in criticizing the organization were normally complacent consumer groups, a number of government leaders including Prime Minister Nakasone and even some LDP Diet members, who recognized that the party's landslide victory in the July 1986 double elections was due in part to new support from urban voters.

Anxious not to encourage any closer examination of the nation's protective rice policies when all the production, stock and cost numbers were running against them, farm groups adopted a low profile as the time approached this year to set the producer rice price. This gave MAFF a relatively free hand to tackle the problems caused by an expected fourth straight record rice crop (see Table 4), an above-average drop in rice consumption (see Table 5) and an

Table 4: Agricultural Production in Japan, 1970-86

(in thousands of metric tons)

	1970	1975	1980	1982	1983	1984	1985	1986
Rice*	11,547	11,980	8,873	9,346	9,433	10,809	10,612	10,599
Wheat	474	241	583	742	695	741	874	876
Barley	572	221	385	389	379	396	378	344
Sweet Potatoes	2,564	1,418	1,317	1,384	1,379	1,400	1,527	1,507
White Potatoes	3,594	3,261	3,421	3,775	3,566	3,707	3,727	4,073
Onions	973	1,032	1,152	1,257	1,170	1,099	1,326	1,252
Radishes	2,778	2,545	2,690	2,709	2,548	2,631	2,544	2,655
Cabbage	3,177	3,030	3,161	3,263	3,075	3,163	3,067	3,179
Cucumbers	965	1,023	1,018	1,071	1,048	1,070	1,033	1,040
Soybeans	126	126	174	226	217	238	228	245
Mandarin Oranges	2,552	3,665	2,892	2,864	2,859	2,005	2,491	2,168
Summer Oranges	254	372	366	318	345	325	269	288
Other Citrus Fruit	105	218	337	416	440	395	442	n.a.
Apples	1,021	898	960	925	1,048	812	910	986
Pork**	734	1,040	1,475	1,428	1,429	1,424	1,532	1,552
Beef**	288	353	418	481	495	536	555	559
Broiler Meat***	n.a.	n.a.	n.a.	1,080	1,143	1,217	1,270	1,275
Eggs	1,734	1,788	2,002	2,057	2,086	2,130	2,152	2,225
Milk	4,761	4,961	6,504	6,747	7,042	7,138	7,380	7,457
Sugar Cane	681	1,973	2,095	2,256	2,526	2,553	2,638	n.a.
Sugar Beets	2,332	1,759	3,550	4,108	3,377	4,040	3,921	n.a.
Tobacco	150	166	141	139	137	136	116	106

*Milled. **Carcass weight equivalent. ***Ready-to-cook weight.

Source: Ministry of Agriculture, Forestry and Fisheries, Abstract of Statistics on Agriculture, Forestry and Fisheries and Monthly Statistics.

Table 5: Per Capita Annual Food Consumption in Japan, FY 1970-FY 1985

(in kilograms)

	FY 1970	FY 1975	FY 1980	FY 1985
Cereals	128.2	121.5	112.9	107.9
Rice	95.1	88.0	78.9	74.6
Wheat	30.8	31.5	32.2	31.7
Potatoes and Sweet Potatoes	16.1	16.0	17.3	18.6
Starch	8.1	7.5	11.6	14.1
Beans and Peas	10.1	9.4	8.5	9.0
Other Vegetables	114.2	109.5	110.3	108.3
Fruits and Nuts	37.9	42.4	38.7	37.0
Meat	13.4	17.9	22.5	25.2
Beef and Veal	2.1	2.5	3.5	4.4
Pork	5.3	7.3	9.6	10.3
Chicken	3.7	5.3	7.7	9.2
Eggs	14.5	13.7	14.3	14.9
Milk and Milk Products	50.1	53.3	62.1	67.1
Fish and Shellfish	31.6	34.9	34.8	35.8
Sugar	26.9	25.1	23.3	21.0
Edible Oils	9.4	11.4	13.8	14.1

Source: Ministry of Agriculture, Forestry and Fisheries, Food Balance Sheet.

inventory level already higher than the government's guideline for adequate stocks. Its primary response was no longer novel but in deciding in July to cut the support price for 1987 crop rice by 5.95 percent, the ministry kept public attention focused on agricultural policy. This was after all the first reduction in 31 years in the politically sacred purchase price. Moreover, the low-key response of the agricultural lobby and its Diet supporters to this precedent-shattering move attracted comment.

The agricultural community was also surprisingly restrained about MAFF's decision to increase the rice acreage diverted to other uses from about 560,000 hectares last year to 770,000 hectares or 30 percent of Japan's paddy land in the FY 1987-FY 1989 period and at the same time freeze or cut diversion incentives. These moves were designed to keep a lid on rice production and make Japanese agriculture in general more efficient, but they also had another purpose: trimming the Food Agency's budget.

The food control account has already been cut by two-fifths since FY 1981, and it is expected to be down by another 10 percent or so in the year ending in March 1988. The action on diversion payments will be one factor. But a bigger cause will be the significant growth in the Food Agency's profits from imported wheat sales as a result of low world wheat prices and the strong yen. Also helping is an injection of surplus money from the semi-governmental organization that handles most beef sales.

Farm policy moved back into the headlines in late October when the government approved the first cut in 45 years in the price at which it resells

rice to wholesalers. While this step had been expected since the reduction in the support price was announced, the 2.5 percent decline is still significant. For starters, wholesale rice prices will be higher than support prices, a first. More important, the cut represents a change in MAFF's strategy for slowing the decline in rice consumption in the face of another inventory build-up. Rather than trying to prop up consumer rice purchases by limiting the growth in wheat consumption through an unfavorable wheat/rice price ratio, the ministry is taking a more direct approach. It has also introduced a new wrinkle: lower prices for unsold 1986 crop rice than for rice harvested this fall.

The cut in the resale price also served a broader public relations purpose in Japan since it narrowed, however symbolically, the gap between high domestic rice prices and world market prices. This difference had already been used by U.S. rice millers to document their September 1986 charge that Japan's rice policies are an unfair trade practice (see JEI Report No. 33B, September 12, 1986). With the gap expanding in dollar terms since then because of the yen's rise, Japanese consumers have had a constant reminder of the high price they pay for rice self-sufficiency.

Early Tests

The U.S. rice industry's attempt to turn Japan's rice policies into a high-profile bilateral issue was foiled by the White House (see JEI Report No. 40B, October 31, 1986), but under pressure from Washington, Tokyo has agreed to discuss rice during the Uruguay Round if other countries put all their agricultural programs on the negotiating table. This is certainly a significant concession, one that would not have been possible 18 months ago, even though the government has always maintained that its rice policies are GATT-compatible. Yet because of the unique role of rice in Japanese agriculture, this concession does not provide a good indication of how flexible the government might be in the MTN on the overall issue of import liberalization.

Japan's trading partners should soon get an early reading, however. Over the next few weeks Tokyo must decide how it will respond to an upcoming GATT ruling that the quantitative import limits on 12 groups of processed agricultural commodities and food products are illegal. (See Appendix A for a description of the 12 groups.) In ongoing discussions with the United States, which initiated the Article 23 proceeding in mid-1986 (see JEI Report No. 27B, July 25, 1986, and No. 19B, May 15, 1987), Japanese trade negotiators have reportedly offered to lift the restraints on some categories. But they say the government's hands are tied on others because the quotas are an integral part of state trading operations.

Another test of Japan's flexibility on agricultural trade reform is also coming up since the 1984 arrangement expanding beef and citrus imports expires next March (see Table 6 and Appendix B). Tokyo has not given any hints of how it will respond to Washington's demand for immediate liberalization of fresh, chilled and frozen beef, fresh oranges and orange juice, but many analysts believe the government will agree to free oranges without too much argument. Pointing to the fact that mandarins are consistently cheaper than imported oranges except during the off-season, they say domestic growers could compete in an open market without a support program. Beef is another matter. Quota increases would be manageable, but free trade would require extensive government assistance to the industry.

Table 6: Japan's Beef and Citrus Quotas, FY 1983-FY 1987

(in metric tons)

Fiscal Year	Beef			Oranges			Concentrate Juice	
	First Half	Second Half	Total	Annual	Off-Season	Total	Orange	Grapefruit
1983	72,000	69,000	141,000	36,500	45,500	82,000	6,500	6,000
1984	76,000	74,000	150,000	44,750	48,250	93,000	7,000	--
1985	80,000	79,000	159,000	53,000	51,000	104,000	12,500	--
1986	85,000	83,000	168,000	n.a.	n.a.	115,000	8,000	--
1987	93,000	121,000	214,000	n.a.	n.a.	126,000	8,500	--

Notes

1. Beef - Includes the general quota (194,000 metric tons in FY 1987) as well as the smaller quotas for hotels (4,000 metric tons), Okinawa (6,250 metric tons), school lunches (1,750 metric tons), boiled beef (6,000 metric tons) and demand development (2,000 metric tons). Also includes imports of high-quality beef, for which there is no separate quota.

2. Oranges - The annual quota covers imports at any time during the year, while the off-season quota is restricted to the June-August period.

3. Orange juice - Imported juice must be blended with domestic mandarin juice. The jump in the FY 1985 quota reflects an extra 5,000-metric-ton allocation to free domestic output for processing in the wake of a reduced 1984 harvest.

4. Grapefruit juice - Imports were decontrolled at the start of FY 1986. In FY 1984 and FY 1985 import licenses were issued to supply demand.

For further information, contact Susan MacKnight.

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The views expressed in this report are those of the author and do not necessarily represent those of the Japan Economic Institute.

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